Jeff Giller:

In this market, the assets are pretty... are actually operating well. They're strong. There's been operational strength even throughout the valuation declines because declines have been caused by high interest rates and rising cap rates. So where we can be helpful is to come in with our capital and help the GPs pay down debt in their portfolio through a recapitalization, and that's an example of the type of deal that we're doing.

Matt Slepin:

Hi, this is Matt Slepin and welcome to Leading Voices in Real Estate. Today's episode recorded on January 16th at their offices at Embarcadero III in San Francisco is with Jeff Giller and Margaret McKnight from StepStone Group's real estate team. StepStone's an investment advisor across all sectors of the private markets. StepStone Real Estate, established by Jeff, both invests on behalf of its clients in private market secondaries and GP recaps, as well as is one of the world's largest advisors to pension funds and other investors on portfolio strategies and allocation. They have a fascinating business model, so stay tuned to learn more. These are some of the smartest minds in the business about where, how, and when to invest in private markets real estate, and they publish, check it out on their website, a quarterly House Views, which is as good as it gets in terms of thinking across the real estate universe.

I love talking with folks who bring a global and unbiased view of the market, and it's rare on Leading Voices since most of our conversations come from the perspective of a company deeply invested in one or another sector of the business. I love getting to the broad view. And as Jeff and Margaret say, and I'm sure you've heard this from others, investments made in 2025 and 2026, after several fallow years in the business, should be the strongest vintages in a long while. Here's to deal flow coming back. We've seen this also in our recruiting business. 2023 and '24 were slow years where most of our clients were cautious in hiring, and used the slowdown to prune versus add people. Much of our work was in upgrading roles where a company was behind the curve in leadership, in finance, capital raising, technology stack, and even upgrading leadership on the development side, preparing their team to be more competitive in the next cycle.

Now, maybe as the market recovers, companies will start back adding to their next level teams, as well as to these kinds of the ante leadership roles. I hope that you enjoy this conversation with Jeff and Margaret. This was a very broad conversation and lots of wisdom in here. It's easy to share episodes through your podcast app, and I hope that you share this and the Leading Voices series with your friends and colleagues in the business. If you have comments on the show, thoughts for guests or, importantly, if you have questions about how ZRG can help your firm through recruiting strong talent for your team or in advisory work relating to the human capital and business platform side of the business, please email me at mslepin@zrgpartners.com. I hope that you enjoy this conversation with Jeff Giller and Margaret McKnight from StepStone.

Jeff and Margaret, welcome to Leading Voices in Real Estate. We are recording together at your offices in Embarcadero Center on January 16th. Week before like yesterday, there was a peace agreement announced, I think? So it was kind of a big day. Next week there's an inauguration. Two quick comments on being here. First, I started my career in search in this building at a small firm called Argonaut Partners with Peter Hall back in 1998. I was in the other elevator bank in the other side, so at the other view. And also in two podcasts I think we have Owen Thomas from Boston Properties, he's your landlord, so he kind of emphasizes in this. Or he is invading this conversation, although you and he are in the office business or he's in the office business, we're in his office. So I'm thrilled to have you guys here and talk about your company, your business, the market. So maybe let's start with introductions. And Jeff, why don't you use voice, say who you are, and...

Jeff Giller:

Absolutely. Well, thanks for having me. This is going to be fun. I'm Jeff Giller and I'm the Global Head of StepStone Real Estate.

Margaret McKnight:

And I'm Margaret McKnight and I am the Head of Portfolio Solutions for StepStone Real Estate.

Matt Slepin:

Okay. We're going to talk about what portfolio solutions are, and I'm also joined by my colleague Sarah Dunn from ZRG Partners.

Sarah Dunn:

Hi guys, I'm Sarah Dunn. I'm a Managing Director at ZRG in the real estate practice with Matt.

Matt Slepin:

Cool. Okay. So first of all, what is StepStone? Just give a sense of what is it in general, there's an overall company in real estate and real assets are a part of it. Or are you real estate in real assets? But Jeff, talk about what this business is overall.

Jeff Giller:

So StepStone Real Estate's part of the StepStone Group and StepStone's a global private markets firm. So we have practices in private equity, in real estate, in infrastructure and real assets, and private debt. I refer to us as a global firm because we have major presence in North America, Europe, Asia and South America. So we think of ourselves as solutions providers. So we provide solutions to some of the more sophisticated institutional investors around the world by helping them think about how to allocate risk across the private markets, including real estate. And then we provide solutions to the world of general partners and real estate managers by providing liquidity. So we invest in their funds, we provide liquidity to their limited partners through our secondaries programs, we help them right size their investments through co-investment programs, we capitalize their entities through our recapitalization programs. So we're solutions projects to both GPs and LPs, and we sort of work at the confluence of the GP and LP world.

Matt Slepin:

And talk about real estate. So first of all, you said you're global because you have offices in all these countries, but I assume investments are made in all these countries are globally, and I assume that investors are global as well as you are global.

Jeff Giller:

Yeah, that's true. We're all global. So we principally invest in North America, Europe, and Asia. Our client capital are the clients we advise, and also our limited partners for our funds and separate accounts tend to be from all around the world. So we have a substantial investor base in the U.S., we're very active in the Mid East. We have a substantial client-based investor base in the Mid East. Same with Asia and Europe and Latin America and Australia.

Matt Slepin:

Okay, that makes sense. And then just the last part about this, how much of the firm is real estate and real estate solutions, and how much are other asset classes? And do your investors think about real estate in context that they get to think about everything with you, but real estate with you particularly?

Jeff Giller:

The firm started off in PE, so PE is the largest practice. StepStone, prior to the development of the real estate business, had decided that they could offer better service to their clients if they could offer the same kind of products and services across all the private markets. So they endeavored to find or build a real estate practice, an infrastructure practice, and a private debt practice. So starting in about 2013, 2014, they set their minds to building these other private markets practices. Private equity is the largest, real estate infrastructure and private debt are smaller but growing substantially. StepStone as a whole oversees about $700 billion in capital allocations from its clients globally. StepStone Real Estate is about 180 billion of that.

Matt Slepin:

And of your 180 billion, we keep drilling down on all these things and they're fascinating differentials.

Jeff Giller:

Sure.

Matt Slepin:

How much of the 180 billion, you used this word when we prep for this call a while ago, assets under management versus assets under advisement, because we think of AUM mostly in the business, not advisement. So of the 180...

Jeff Giller:

About 18 billion of the 180's assets are under management, and the balance is assets under advisement.

Matt Slepin:

You acquired Courtland. Courtland is quite-

Jeff Giller:

We acquired Courtland. So one of the things we found was you can't just grow an advisory business organically because pretty much all the advisory assignments were filled. So every institution that needed an advisor had already had Courtland or Townsend or Mercer or PCA, and there's this other chicken or egg problem. People refer to the five and five rule, you need five years of track record and $5 billion of AUA just to apply.

Matt Slepin:

Right.

Jeff Giller:

So you can't win any business. So we were growing slowly really off the backs of a couple of StepStone clients that used us for real estate because they were using StepStone for PE, but just kind of dead in the water. And then for sad reasons, Michael Humphrey, the founder of Courtland, passed away. I knew him well and it was a tragic moment for the industry. But when he passed away, Courtland needed a solution for leadership, and since Michael was the sole owner, CEO, and we needed a solution for our advisory business. So I began conversations with Courtland about acquiring them and having them merge in to our business. And a year later we closed our acquisition of Courtland and it's been fantastic. We went from five billion of AUA to about a hundred billion overnight. And it's funny, suddenly the world started taking us seriously just because we had big numbers in our pitch book. So it helped us raise bigger funds, it helped us get better information. It really catalyzed that model I was telling you about.

Matt Slepin:

And they didn't have the other side of the business?

Jeff Giller:

No. In fact, it was interesting. They had a different orientation. They had always been... built their business on the foundation that you couldn't mix the two. They were a non-conflict shop as they described it. But I think that we were able to convince the senior team and the founder's family that this was going to be a really positive productive model for them and we convinced them that we believe that the conflicts weren't really real. So it's worked out really well.

Matt Slepin:

Cool. And when you guys are in this, how do you differentiate between, but I'm curious because... Now I'm going to restate the question. I don't like the dark side of the moon. And so the dark side of the moon might be public equities and the bright side of the moon for you is private stuff, but the moon has to be understood holistically. So when people look to say, "Invest in our class real estate," if they're thinking about REITs versus thinking about private markets, talk about either the behaviors of the two or when do you tell them, "Oh, this should be a REIT investment?"

Jeff Giller:

Sure.

Matt Slepin:

"You're okay here."

Margaret McKnight:

So we are very client-focused, as Jeff mentioned, and the overwhelming majority of our clients really come to us for private real estate. By and large, they already have public real estate stocks in their equity portfolios, and their public equity portfolios, they are a part of the index. So they're not trying to double down, they're trying to get access to three quarters of the real estate world, two-thirds maybe, that is private that also has a broad array of strategies including the non-core, the value of the opportunistic, the buy, fix, and sell. Stuff that you can't do in the public markets.

Matt Slepin:

And you can't talk about mom's and pops because the content of allocation is different for a mom and pop because they'll invest into a property or something. But if someone comes and says, "Hey, help me understand real estate, I want to invest in the private markets or public markets, which should I do?"

How would you advise them on that in the differential? And our guests on the show are literally half are from the REIT world and half are from private real estate companies. They're all my children and I love them all.

Margaret McKnight:

I would start the way I would start to advise anybody is to really understand, what are your goals? What are your investment targets, your income needs, your risk tolerance, your resources? And in that is size, it's a critical variable. We tend to work with larger clients who have the wherewithal to move into the private markets. It's easier than it used to be, there are a lot of commingled products, but you still do need a certain size to be able to move into the privates. And it's a fair amount of work, it's a very opaque world. That's what our job is to do is to bring transparency and help provide information for good decisions. The public real estate world is highly correlated to public real estate stocks. So it doesn't offer the same amount of portfolio diversification than the private world, which isn't.

Over time, if you cut a PME and compare the two, sometimes one's ahead, sometimes the others ahead. There's not a clear winner. So it's not about returns, it's about accessing other strategies in three quarters of the market. You have to have tolerance for a lot of volatility in the public market, there's huge price swings because it's a pretty small valve to get liquidity in the real estate world. And that's part of why privates bring diversification because they're much more stable over time in terms of returns.

Matt Slepin:

And is the benefit liquidity and stability, and with opacity might come you're going to post a slightly higher return over a longer period of time or not?

Margaret McKnight:

Well, at any given point in time, one or the other ones ahead. Over time, there's not a clear winner.

Matt Slepin:

Okay, cool.

Margaret McKnight:

It depends.

Jeff Giller:

Well, you could also argue that the private real estate is just as volatile. It's just not market [inaudible 00:14:16] as public real estate.

Matt Slepin:

I find this differential fascinating, and we're going to get to it when we talk about companies and how you underwrite companies. So talk about your work on the advisement side because that's the larger... the assets under advisement. What does that business look like? How does that work? And I think you made a big acquisition to both the [inaudible 00:14:42] sides to make you who you are today.

Jeff Giller:

The way StepStone's structured is with a very... We call it our positive feedback loop. Our advisory business and our asset management business is very synergistic. So our advisory business is where we work with clients to help them think about portfolio construction, and we allocate capital to different products and sectors and geographies mainly through primary investments in funds. And so it's largely a research function. So we're looking at fund performance, we're researching the manager, we're looking at their track record, we're looking at their history, we're comparing terms across funds, and we get a tremendous amount of information on the real estate markets and managers through our advisory process. On the asset management side of the business, we're providing liquidity solutions to general partners through investing in secondaries and co-investments and recapitalizations. And we're able to use the relationships that we get through our advisory business to source these kinds of deals...

Matt Slepin:

Right.

Jeff Giller:

... from the managers. And also, the information that we get by being involved in these funds help us price and manage primary, secondaries, co-investments, and recaps. And also, a tremendous amount of deal flow because we are so important to the managers since we're allocating so much capital to their funds. On average, we allocate about $15 billion a year to funds that we are typically a first choice for them to facilitate a secondary, to do a co-investment, or to recapitalize their funds with their subsidiaries. On the other hand, our fund investment business, our advisory business benefits substantially from our secondaries and co-investments and recap business, because on that side of the business we build real estate skills and we may be involved in those funds through a secondary or a co-investment. So we really get the chance to roll up our sleeves with the managers and work with them and understand their assets as partners before committing primary capital on a blind pool basis to their funds. So, the two businesses work really well in tandem together and that's really the foundation of our business.

Matt Slepin:

Yeah. So we'll talk about the two sides, we'll hit each of them separately, but since we're thinking of them together, what is the... I think of you as a gatekeeper, and traditionally you think of the consultants as gatekeeper and they're a big deal gatekeeper. No-one sees me here, but I'm pointing up and my head is up and my neck is hurting because when you come to their office, they're on show. This really matters. But at the same time you're doing that, you're also looking to provide capital. What is the conflict of interest or conflict between those, and how do you handle that?

Jeff Giller:

Yeah. I mean, there isn't a conflict. We look at the GPs as our partners. So we're evaluating their funds for our clients on the advisory side. So we look at ourselves as partners to general partners, not adversaries. I know some consultants actually think that the general partner as almost like the enemy and a due diligence exercise is like a deposition where you are-

Matt Slepin:

Yes.

Jeff Giller:

Yeah. But we actually look at them as partners and we're very diligent in our research and we're very judicious about who we choose. But we want the general partners of these funds to think of us as a capital source, whether it's for their funds or for their secondaries or for their co-investments.

Matt Slepin:

It probably changes the game since 20 years ago when the consultants, and there were two or three of them, still are, but when the consultant comes in, it is what I described as my neck hurts because I'm scared. And if you are also an investor with them, then you might be a partner or you might be takeable. "I want your business but I'll say good things," or, "I know you better so therefore we could do business together." And I'm not calling this evil. The world revolves around positive conflicts, I think it's just a huge deal in the business.

Margaret McKnight:

Yes, and I think that the people, things have changed a lot since there was a perception of conflict that... So, since it got developed, many people still have it. But I think one of the worries is that we'll somehow stuff the account with something bad from the other side to serve ourselves. And the issue there is you can't because if it's an advisory client, they have a say in it. But whether it's advisory business or discretionary business, we live and die by our track record and our track record has to come first. If we're not delivering results, we can't grow our business. So if you do a bad deal on one side to make another deal work, you're going to have to pay for it.

Matt Slepin:

Fair deal. So enlightened self-interest, at the end of the day, if you care about reputation, it's long term. So let's drill into what that consulting thing is. Let's first, since we're talking about GPs, talk about if you are evaluating a GP, how do you do that? And also, how much of it is pure track record? How much is going to the office? How much of it is people? That's the part I care about the most. And how do you evaluate and do you really evaluate that?

Margaret McKnight:

Can we back up a little bit and talk about you're starting in the bottom up, which is where people love, love, love to start, but you kind of have to start by knowing what you're looking for, what you need. That starts all the way back with strategic planning with the client.

Matt Slepin:

Okay. Let's start at the top.

Margaret McKnight:

Helping them figure out what their needs are, understanding what is going on in the market that's tactically interesting. And that's why we have a big market research fund and we publish our House Views, which we've been delighted, it's very popular. And we put those together with the client or on behalf of the client if it's discretionary to make a plan for them. And then-

Matt Slepin:

And the client is pension fund, sovereign wealth fund?

Margaret McKnight:

Pension fund, sovereign wealth fund and [inaudible 00:20:45]

Matt Slepin:

Which size might be average or median for typical clients?

Margaret McKnight:

We tend to work with larger organizations that write larger checks. And most of them as pension funds have rules about what size, what share of any given fund they can be. So we tend to invest with medium size and larger funds.

Matt Slepin:

Which is if the total, when you get to a hundred and whatever bazillion dollars of advisement, just make one of them real. You don't have to use the name of it, but then if it's the sovereign wealth fund of XYZ-

Jeff Giller:

Maybe an example is we're working on onboarding a client now that's going to put out about $400 million into real estate funds, secondaries and co-investments over a three-year period.

Matt Slepin:

Okay.

Jeff Giller:

It's not at a typical size. So a couple hundred million to maybe a billion dollars a year allocated to different funds globally would be a fair range.

Matt Slepin:

So the first work is what do you want, what do you need, and then how do we get you a basket of stuff? And I want to think about that and as well as the ongoing work, how do you monitor that?

Margaret McKnight:

So we design the portfolio, right?

Matt Slepin:

Yep.

Margaret McKnight:

And then if you're investing in closed ended funds, you need to figure out your pacing. So how much do you commit to them to actually get to the exposure levels you want? We have models that do that. So then you start to know what you're looking for in terms of how many managers of what size, of what type. Then the screening comes in. We have a database by research, it's a relational database. We live in it, our clients live in it. We track about 3,700 GPs. We have information on their organizations, their track records, all their current fund offerings, notes, et cetera. And so we can say, "Hey, client A, you need a

$250 million commitment to a U.S. industrial fund." You can pull down here's who is in the market now and do some comparative analysis.

Also, we are actively in dialogue with these GPs. We have a thousand GP meetings a year. So we will also say, "And by the way, this is what we think you should do" and we'll go through a pipeline call with them and make a plan for which funds they want to invest in each year. So that all fits the top down plan. And then now that you know why you're doing what you're doing, you can narrow it down to the best fit manager for your needs. And then we will undertake due diligence, which gets to what your question about how do we look at a manager.

Matt Slepin:

And we'll come back to them because I'm curious more for this. So asset allocation, how diversified should someone be? And just diversification international or what countries, what asset types, and should they do closed-end fund, open-end funds? What are the differentials between all of those allocation tricks?

Margaret McKnight:

We've actually published a real estate primer on this that you can get off our website that goes through a lot of this because the answer is it depends on your goals. Many U.S. pension funds tend to invest predominantly in the U.S. because part of their goal is inflation protection, and historically at least inflation hasn't been correlated by countries. So if you want to protect U.S. expense base, you need U.S. assets. It is also harder to make returns abroad because just the currency challenges, not because the markets aren't equally sophisticated, they are. Larger funds will have international allocations appropriately because it's a big opportunity set. And a number of the non-U.S. clients are actually coming to us for exposure in the U.S. and Europe, so it sort of all depends on what the client's looking for. And then going back to you need to understand what your goals are. Usually there is, one of my favorite slides that I've been using for decades and I can't show it here, but it's a diagonal going from bottom left to the top right of risk and return. And you start with core, core plus, value-add, opportunistic.

Matt Slepin:

Right.

Margaret McKnight:

And depends what your actual goals are. At the bottom end you're basically getting core, core plus is a lot of beta, it's a lot of current income. That's why public pension funds like it. As you move up into the value-add and opportunistic, you get into higher returns and the whole line provides diversification. So if you're higher return oriented, you're going to want to go into the non-core funds. The core, core plus funds tend to be buy and hold strategies and so they tend to be open-ended funds because they're buy and hold portfolios, whereas the value-add and opportunistic is a buy, fix, and sell and that matches best. All the alignment of interest is created with a closed-ended fund.

Matt Slepin:

Let me ask you a question I asked before, which was public versus private and performance over time. And then if you look at each of those placed along your spectrum from core at the lower end to the opportunistic at the higher end, if you look at a twenty-year hold or investment in multiple funds and opportunistic versus long-term on a core, do they tend to revert to the median mean or are you getting better with the higher risk at the end of the day?

Margaret McKnight:

You do get, and this is in our primary, you do get higher returns from the non-core, but they're not a lot higher if you look at the... if you compare the indexes, like the whole market for both. The key is two things. First of all, non-core is very cyclic, so you really want to lean in on interesting vintage years, and by the way, that is now.

Matt Slepin:

Right.

Margaret McKnight:

And then secondly, there's a huge dispersion of manager performance. So the index is just looking at the median manager. If you can successfully, consistently pick out performing managers, you then justify going up the risk spectrum. And that's a big part of what we are working with our clients to try to do, and it is doable.

Jeff Giller:

I thought it might be helpful too. We've talked about all these different levers you can pull in terms of portfolio construction, but maybe just to really simplify and talk about what those levers are, like what we are considering when we were building out a portfolio, a well-diversified portfolio. These are pretty obvious but worth mentioning, product type, office, retail, multifamily, industrial or whatever alternatives, geographies, whether it's U.S., Europe, Asia, Latin America. Levels of leverage, how levered does the... How much leverage risk does the client want to take? With the income profile, are they cashflow generating assets or are they more total return oriented? Liquidity profile, how liquid are they versus totally illiquid?

Matt Slepin:

Right.

Jeff Giller:

Capital structure is another one, debt equity versus hybrid, and then risk category, core, core plus, value-add, opportunistic. So this is the matrix that we're considering of opportunities when we're designing a portfolio for our clients.

Matt Slepin:

Right. Okay. So at the high level that's what that looks like. We're going to come to your House View in a few minutes, so we're going to get there about where we are today. But now let's do the micro. So if you are doing that dreaded or excited visit with a GP, and again, let's pretend. I do a lot in the apartment business, so let's pretend it's an apartment investor and they do value-add stuff. Let's just make that it. How do you evaluate them? How do you differentiate between these companies?

Jeff Giller:

We look at a number of qualitative and quantitative factors. First of all, we're looking at their track record, we're looking at the profile of their team, how long the teams worked together, we're looking at their investment strategies.

Margaret McKnight:

We actually do about a 70-page due diligence memo and the format is the same for all the asset classes across the country, so it's trying to bring the best company. It's trying to bring in the best practices. And, As Jeff said, track record, relative track record, digging into what they've done is super important. On the organization, the things Jeff mentioned, plus the rate of growth is a big one these days. How fast are your assets growing versus your team, and is it sustainable and are you being smart about it? Do we like your strategy? And then your structure and your terms. And we also look at responsible investing characteristics, and that demand for that varies by client. Then we have a whole separate function that's deliberately separate to be independent that goes into operational due diligence, things like cash controls and that sort, which is another really important at the end of the day. You got to bring home the bacon.

Matt Slepin:

And during the last upcycle everyone looked good, but you could... You'd still differentiate those who look good or better or who have a sustainable business model.

Margaret McKnight:

Absolutely, yes. And which strategies did we like? And it's all relative, some did better than others.

Matt Slepin:

Right.

Margaret McKnight:

So we dig into that. For example, if you look at the first quartile, almost every industrial manager is in the first quartile for the last couple of years. Then compare across the industrial managers and who is doing better, and then why are they doing better? Are they doing better because they're actually operating further up the risk spectrum and doing development, or are they actually just doing a better job? And also, would the client want to be further up the risk spectrum or not? So a client fit always matters.

Matt Slepin:

Go to doing a better job. So how do you evaluate they're just doing a better job? What did that mean?

Margaret McKnight:

Well, track record's a very big part of it and what they own and where they own. And by the way, today one of the bigger issues is also what's the carrying value? Because not everything, the marks are much higher than the actual trading value. So we're really starting to dig into that and that is a quantitative analysis.

Jeff Giller:

And we also look at things like loss ratios. If somebody has had a successful track record but with very high losses, we would look at that as a red flag. We also look at how they built the returns. Was it through cap rate compression? And by no luck of their, do they just lever up and then ride cap rates down and that's responsible for their good returns? Or did they actually add operational value by improving NOI? So we look at the profile and the composition and the root cause of the returns as a big factor to determine their quality.

Margaret McKnight:

To your point, everybody has been doing well lately and we really do like to see longer track records to get more perspective on that. It's not always possible in some of the newer sectors, it's just not going to happen. But for some of the bigger organizations, understanding how they did in tough market conditions really gave us insights. And we're about to see that because the recent couple of year vintages in due course are not going to be such high performers.

Jeff Giller:

I think it's really interesting. Real estate is quite different than private equity, where top performers in private equity are consistently top performers and bottom performers are consistently bottom performers in private equity. That's why in private equity, one of the highest values that an advisor like us can add is giving clients access to the hard to get funds. In real estate, there's just much more variability in a single manager over vintages. It depends on what product types they've been leaning into and are those doing well in the particular vintage or not? If, like Margaret said, if you happen to be long industrial and multifamily, you are going to be first quartile.

If you happen to be long office and maybe retail, you're going to be bottom quartile. And you can argue whether or not the managers should have foreseen the things that cause the success and failures of those product types.

Matt Slepin:

Right.

Jeff Giller:

And it's also got to do with, it's got... So leverage, asset type selection is a big factor, that-

Margaret McKnight:

Location. Right?

Jeff Giller:

And location. But, I mean, those are the factors that create, that maybe cause managers to perform well in one vintage and not in another.

Matt Slepin:

Right. And how does a company that's largely in office... Everyone's made their bet. Some are somewhat diversified. A lot of the retail REITs like companies, for example, have diversified 10% into multifamily because it's on their campus so they could do it, but they're retail REIT. Apartment REIT, they do apartments and if apartments are out of favor, they're just going to have to sit there and handle through it. And the private managers have the same dynamic.

Jeff Giller:

No. If you're an office manager, you could have been exceptionally good at doing what you're doing, but there's no demand for office investment right now so you're really forced to sit it out. It's very hard to reinvent yourself. Some have tried, some have decided to try to pivot into other asset classes. But an office manager's been an office manager for decades and decides to hang their shingle as a multifamily or an industrial manager is going to be... is going to have a lot of competition from those that actually have long track records and teams.

Matt Slepin:

And so talk about teams, and one of the things we talk about on the podcast all the time is that I... and we do it at CRG as well, which is contrasting the value of the assets with the value of the business platform. And companies now have to invest more in the business platform both in terms of people and technology stack than they used to. So the business platform side of that equation, how do you evaluate that? How do you evaluate that going forward? What are your metrics on that?

Jeff Giller:

Do you mean if we're buying a real estate operating company, if we're actually investing in a REOC?

Matt Slepin:

No. Well, if you're telling one of your pension funds that, "Okay, this is the fund or this is the manager to invest in because we believe in their team," and you do a 70-page thing so you're thinking about the team, which you said a minute ago.

Margaret McKnight:

Well, you want to look at the track record and you want to see that the team that generated the track record is consistently there, that they're stable, that there's not a lot of turnover. And that also the team is growing in concert with the assets so people aren't getting overwhelmed so that it all hangs together. You want to make sure that they have the expertise to do what they're supposed to be doing. And that's not just the front but the back office, and that's where things like operational due diligence come in. And then you mentioned technology. I think this is one of the very interesting things because as you look at... I've in particular have looked at a very well-known, very large fund that consistently does well and everybody's saying, "One of these days they're going to get too big and they're going to do horribly."

And if you spend time inside shops like that, what you realize is if they're doing it right over time, they have a huge amount of data on the assets that they own and they're harnessing that to make good decisions. And most of the larger firms also have operating companies and a lot more data, sometimes even beyond what they own. And as we go forward with technology, qualified data, good data is very expensive and very hard to come by. It's these bigger shops that have a huge leg up on getting it, but also paying for the technology to organize it and use it intelligently.

Matt Slepin:

Some of it's the data and some of it is how the technology affects the operating platform. And I think one of the benefits of the REITs going forward will be that they can invest across the platform. And I'm thinking of apartment business, but it could be self-storage, it could be any asset class where the investment in technology then immediately impacts stickiness of residents. It impacts rent growth, which we know there's lawsuits on that subject.

Jeff Giller:

Yes.

Matt Slepin:

But in staffing, and AvalonBay with our clients right now, they're having, I'm going to make up a number, 10, 15% reduction in operating costs from people standpoint because they're able to leverage technology. And smaller operators afford that technology stack.

Margaret McKnight:

Smaller privates, it's harder, but there are many very big privates who absolutely are doing exactly the same thing. They're very sophisticated and they have the same kind of resources.

Matt Slepin:

So how do you evaluate that? And then also one thing you said is longevity of management team, which I think goes both ways because often, and I famously was in the room with a major private investor in the apartment business. And we started a meeting and I was with all their, I'll say, guys in the room.

Margaret McKnight:

It's guys.

Matt Slepin:

And they said, "We have a problem." I said, "What's your problem?" They said, "Well, there's six of us. We've been together for 20 years. That was really good, but now it's not good anymore, A, because we're guys, B, because half of us are going to retire in two years." So that's a brittle, not a resilient company, so how do you look at all those things?

Margaret McKnight:

Generational transition is a big thing that we look at-

Matt Slepin:

Yes, let's [inaudible 00:37:42] that.

Margaret McKnight:

... and most... A well-managed company plans for that, they layer in team at different generations and there is a transition going on already. A transition of ownership oftentimes needs to bring in third-party capital to do that. And then there's many places that are already publicly held or whatnot. So yes, you do have to factor all of that in.

Matt Slepin:

And you have a bright light into that as you're evaluating companies.

Margaret McKnight:

We spend a lot of time getting to know people and who's doing what to whom. And it's a regular part now of an investment committee memo to discuss who has retired because this whole business started in the early nineties. Yeah, people are retiring, it's a thing, but now we have continuity and we have multiple generations involved.

Jeff Giller:

Stepping back a little bit and thinking about your initial question about how we think about when we're evaluating companies and the teams, the importance of the teams. As you know, we have two different sides of our business. One where we're evaluating funds and managers on an advisory basis to make primary commitments to funds, and the other is more doing deals. When you're making a primary commitment to a fund, it's all about the manager and the team and their ability to invest capital on a blind pool basis. So you need to convince yourself that the team is top-notch, that they're going to stay together, and the longevity of the partnerships and the dedication of the founders is a very important part of that. So you're really focused on the team and their ability to continue to sustain their track record and do what they've been doing. If you're doing a secondary or a co-investment in our case or a recap, it's more about the deal itself and the assets. It's maybe 20% of your concern goes to the management team, but if the assets are there, you spend more time evaluating them.

But teams are exceptionally important. We're actually thinking of an M&A opportunity right now, and you think about whether or not... And they don't have a lot of AUM, but it's a really good team with a really good track record. It's quite expensive to buy their business. You could buy the talent off the street, as you know, it's your business, separately and try to assemble a team. But there's a tremendous amount of value in a team. A team that's worked together, that has stayed together, invested together through up markets and down markets, as opposed to trying to assemble a new team of [inaudible 00:40:18]

Matt Slepin:

Individuals who may not fit together.

Jeff Giller:

The individuals may not fit together, you don't know if they're going to get along, if they're going to work together well. So teams have real value, and so we spend a lot of time evaluating.

Matt Slepin:

And what do you do when the founder either isn't retiring, that's okay, that might be good, but the founder is like a one name person. There's one particular one name person or a business, it's not Sting. But when it becomes so associated with a single brilliant person with a vision, can you see that that vision has been passed on in case they get hit by a bus or retire out of the business?

Jeff Giller:

The real estate private equity business started, what, in the late nineties and 2000s? So there was a generation slightly older than ours before that started it, but most of the people that built the big real estate private equity firms are sort of my class.

Matt Slepin:

Right.

Jeff Giller:

My analyst associate class, we all grew up together. And what's really profound is how few people have retired. It was funny, I was the co-chair of the CEO conference at PREA, so I was up in the podium looking at all the 200 real estate CEOs out there. Oh, sorry. And I had done it, I'd been in that room for years and I kind of look at it and I'm like, "Wow, these are all the same faces, but their hair's a lot grayer."

Matt Slepin:

Yep.

Jeff Giller:

And I had that profound revelation that no one in our business retires. And they've all done really well, people have been very successful, they've made their money. But I think it's a fun business and I think a lot of people say, "What else am I going to do with my life?" So we do have this succession problem. There's only one or two firms out there, without naming names, where there's really a single iconic leader who is known to be making all the decisions. I think, otherwise, most firms have done a really good job of spreading out power and thinking about succession and there's layers of successors to take over. In our situation, for example, my two co-founding partners, I'm 62, Josh Cleveland's 51, Brendan MacDonald is like 46. And we've got a really strong bench of early forties and mid 30 year olds and there's... Succession's pretty easy so we've got that sort of natural tiering.

Matt Slepin:

Not all companies have that, that's the issue. And with a lot of companies, there's that person. I'm 68, so slightly different, but in a lot of... The class came in all together, so they're peers and they're now all 68 or 62 to 68. You're describing that you have a great model here. I wonder how we think about that for the groups you choose to invest in, is do they have that resilience and that succession built in? Some do, some don't.

Jeff Giller:

Some do, some don't.

Matt Slepin:

[inaudible 00:43:22]

Jeff Giller:

We look at that.

Matt Slepin:

So you mentioned the word responsible investing. So while we're bottoms up, although it's a tops down question, I don't want to lose that theme. And is that going to change with new administration in Washington that cares less about that, but worldwide it might not be cared less about? And so how do you see that? So that's my either politics or my heart, but I really, from a fear standpoint, care about climate. That's the one that you can't kick that particular can, but it got grouped together, which might hurt it in the political environment, but I don't know that.

Margaret McKnight:

When you talk about climate, yes, political inclination matters. But at the same time, this is getting very real for real estate. The number of natural disasters costing over a billion dollars a year has skyrocketed in the last 20 years. And we are sitting on two major events, Helene and Milton, and the fires in LA that aren't even in the numbers, having huge impact on the real estate that's owned, making you think twice about where you're owning real estate, making you be very careful about physical structures. And, above all, it's going to affect us through insurance rates.

Matt Slepin:

Insurance, huge.

Margaret McKnight:

And even more than that, whether you can get insurance is starting to become a big part of the conversation. And that is really challenging because if you can't, your mortgage can become due. So our industry is going to grapple with this, our country has to grapple with this. And if thinking more about how to stop those events is going to save a lot of money, regardless of the rhetoric, I will bet that's going to happen.

Matt Slepin:

And so regardless of the rhetoric and what a client says they care about or these priorities or their legal priorities, you might still evaluate portfolios from the perspective of climate because you've got to.

Jeff Giller:

We already did. I mean, I can think of a recent deal that was getting ready to close and we killed because we started to think about hurricane risk. This was in Florida, it was a manufactured housing portfolio in Florida. And there's a lot of mitigants to the risk, but ultimately we said, "Why would we want to step in front of it at all?" So it's a manifestation of exactly what Margaret's talking about.

Matt Slepin:

Fair deal. Okay, let's change subject. I want to spend five or 10 minutes to talk about your investment side of the business and what those tools look like in those different kinds of investments you make with GPs and sometimes LPs. Partially secondary, so describe that side of the business.

Jeff Giller:

What we call our active side of the business, it involves investing in co-investments. So we invest alongside GPs in the deals they do typically for their funds to help them right size their deals so that they don't get too much exposure in their funds. And then we do secondaries, but we also focus heavily on what the market calls GP-led secondaries, what we initially called special situation secondaries. And these are deals along that we do that are catalyzed by the GP where we're buying out LP positions in funds or we're recapitalizing funds. But they're much more like direct deals or joint ventures because we identify a pool of assets in a vehicle, we work with a GP, we underwrite all the assets, we usually take some level of control and we work with the GP to sort of take the assets to the next level.

Matt Slepin:

And give an example of that. Some of them right now might be upside down or maybe almost upside down might be the better place to be. Can you make that a little bit real?

Jeff Giller:

Yeah. So in this market, unlike the GFC where the assets were all distressed operationally, in this market the assets are pretty... are actually operating well. They're strong. There's been operational strength even throughout the valuation declines because declines have been caused by high interest rates and rising cap rates. So where we can be helpful is to come with our capital and help the GPs pay down debt in their portfolio through a recapitalization. That's an example of a type of deal that we're doing.

Matt Slepin:

Oka. And they're repaying debt right now because it's coming due and the current interest rate to replace it is three-point differential and you could do better in a restructure?

Jeff Giller:

Yeah, exactly. If you finance something at a 70% loan to value before the interest rate rises, when advanced rates were higher and interest rates were lower. So if you had something that was worth a hundred and you financed it at 70% LTV, now not only have rates risen, so you can't get as much, as high an advance rate, but the V in value has declined because cap rates have risen. So you're going to get, that $70 that you financed before, you might only be able to refinance it for 40 once it's due. So the GP needs capital to come in and pay off the difference between the 40 and the 70. And so a lot of our capital is going towards those kinds of recapitalizations.

The other thing we're doing is we're helping managers facilitate fund wind-ups. So at the end of a fund life, we're basically replacing the LPs in continuation vehicles. And because funds haven't been able to sell assets because the transaction market's been locked up, they're holding assets past the dates that the funds are maturing. So they need some sort of wind-up solution. We've come in and either taken out the LPs and become replacement LPs and create a basically continuation vehicle to help the managers wind up their funds. Or the other thing we'll do is we'll work with the funds operating partners, say, they own an operating platform. As an investment, it's the last asset or one of the last few assets in the fund. We'll help the operating partner buy out the GP, or, excuse me, buy out the fund and become the replacement partner for the operating partner and effectively do a continuation of vehicle with the manager.

Matt Slepin:

Right, because the operating partner now, the GP, the LP needs them to get out, but they want to stay in, but the documents let them get out but it's in the interest of the operating partner to stay into the asset because it has good value. And if you got to sell it today versus JV added to the future with you, it's a much better execution.

Jeff Giller:

Yeah, exactly. So we can be the take out for the fund that was their capital partner and become the replacement capital partner.

Matt Slepin:

A different question is, and maybe this is something you don't do at all so you just, say, kept smoking dope here, but a lot of operating partners are looking to get into the business of long-term asset ownership.

Jeff Giller:

Well, we can be a bridge to that. I mean, we're not a longer-term holder either, so we're going to want to... And we're usually setting these up where the operating partner is incented by carried interest. So we'll just reset their basis for carried interest calculation purposes, so it'll be same thing, a three to five year hold. We'll let them grow the business further, continue to work out some assets, improve assets, let them get another bite at the apple. And we wouldn't be the long-term capital, if that's what they're interested in. What's catalyzing our deals right now, it's just really general market illiquidity. So the first situation I described, which is a continuation vehicle, it's because either the fund or their operating partners can't sell assets in this market. So we come in with liquidity as a replacement to the fund that is trying to create liquidity. Another thing driving our deal flow that is due to illiquidity is a lot of managers are struggling to raise capital right now because the fundraising market is down so much. It's been down about half compared to peak years.

And so the capital that's being raised is really being concentrated in what I always refer to as the big shiny names, some of the large and mega cap managers leaving a lot of small and mid-cap managers that are very good out in the cold. So they've either partially raised funds or they have portfolios of assets that they've acquired with either their own balance sheet or, like I said, partially raised funds and they're sort of dead in the water. So in a number of transactions, we've come in and we've effectively bridged their broken fundraising processes by recapitalizing those portfolios. And we come in basis that we think is attractive, so a discount, and then we provide... Then they can use that capital to go out and buy additional assets and we'll often allocate additional capital to them on a non-discretionary basis that they can grow their portfolio. So we become, effectively, the replacement for fund raise, and that's caused by this dynamic of capital flowing to the large cap managers and away from the small and mid-cap managers.

Matt Slepin:

And let's talk about them because we haven't talked at all about the half dozen or whatever, the big, big ones are. And you talk about the 3000 funds that you follow, you talk about resilience and all these other things that we just spent the last half hour talking about, but they don't particularly apply to the top five funds because they're humongous. And will the future be those top five funds and how do the other 290,905 exist in the world? Will they exist? And what's the competitive model for them versus the giant funds going forward?

Jeff Giller:

There's no question that capital continues to concentrate in the large and mega cap funds.

Matt Slepin:

Right.

Jeff Giller:

And at the expense of the smaller and mid-cap managers. It almost becomes like a virtuous circle or a self-fulfilling prophecy that that keeps happening because what the large cap funds are able to do is, as Margaret was saying earlier, they own the market on information. They collect and use their data, they can price more efficiently, they can manage more efficiently. It also becomes a vortex for generating and attracting and keeping and training talent. So you get the best and the brightest and the most talented that want to work for those firms. Their ability to source and access deals becomes tremendous because they've got reach everywhere and their everybody's first call, and their ability to execute using the capital markets because of their size and sophistication becomes more and more important. So it does seem to be the future-

Matt Slepin:

Is the future [inaudible 00:54:17] Is the future the vortex?

Jeff Giller:

It seems like it's getting more and more important to be large.

Margaret McKnight:

It's easier to be bigger in a whole lot of ways, and we're really attuned to that with a larger clientele. On the other hand, it's a very big, very diverse world, and those groups keep spitting out people who are very smart and very hungry to be entrepreneurs that start their own businesses. I know of one of the boutiques that has the most interesting use of technology actually was somebody that spun out of one of those big-

Matt Slepin:

Yeah, of course.

Margaret McKnight:

It happens all the time. And I think, at some level, it's hard to be small or in the middle, but you can grow through that. People are doing it. I think there are so much creativity and motivation in this business that we will still keep having new and different businesses growing up.

Matt Slepin:

I'm thinking of The Wizard of Oz and I'm thinking of a vortex, and there's the vortex in the middle but it keeps spinning out these other things that keep happening and growing.

Jeff Giller:

I think that, Margaret, we can maybe disagree a little bit on this.

Matt Slepin:

Go for it.

Jeff Giller:

I think that that does happen, but I think that it doesn't happen a tremendous amount.

Margaret McKnight:

And less than before.

Jeff Giller:

And less than before.

Margaret McKnight:

I think there are less startups than there used to be.

Jeff Giller:

I mean, back in the nineties...

Margaret McKnight:

The whole business was born in the nineties.

Jeff Giller:

The whole business was-

Margaret McKnight:

You had all these great... This kind of fund structure really started or really got picked up steam in the nineties-

Jeff Giller:

Nineties. It was post RTC.

Margaret McKnight:

So all these shops, that's when their roots were, some of them made their money in the RTCs to fund their businesses. So, of course, you had a bunch of small businesses and over time there've been winners and consolidators and everything else. So there are way less young shops than there were then.

Jeff Giller:

I was going to say though that back in the nineties there were larger firms and the Wall Street firms, Morgan Stanley and Goldman Sachs and the firms like Colony Capital, my former firm, J. Robert, those were the big firms and they spun out people. And anyone who spun out could raise money because there was this view back then that a emerging manager or a startup firm was really attractive and LPs put back spin-outs all the time. And then the GFC hit and they ended up with hundreds of managers in their books, and that drove a lot of this consolidation.

They said, "Wait a second, we ended up with..." Well, two things happened. One is those very large managers completely failed and lost a lot of capital. But the other thing that happened was they ended up with these big books of maybe a couple of hundred managers because they had backed everybody. And so that led to this view that we need to reduce our manager count and consolidate relationships. So while I think that you're right that there are some managers spitting out of the big firms that are raising capital and having some moderate success, I think you can count them on one hand. And I also think that they have and they're still sort of in the mid-cap space. Where I think the real story of the day is the Blackstones, the Starwoods, the TPGs, the KKRs of the world, CBREs, the Stepstones are getting larger and larger.

Margaret McKnight:

Yeah. The other factor in this, as you're talking I'm thinking, is that the investors staffs are getting smaller and smaller. And they're so resource constrained that they just have to re-up with a few smart managers kind of a thing. And that is where we come in because we can broaden out their reach.

Jeff Giller:

The other thing, Matt, is I think we're going to get to this maybe later in the interview, but the reason why we merged our very small and successful little boutique, Clairvue Capital, into Stepstone to create StepStone Real Estate is because we recognized that we had to grow or die. So we needed to figure out a way to be part of a larger platform in order to be in the right space in the vortex. So that was 10 years ago we recognized it and built our business that way.

Matt Slepin:

So think about the vortex for two more minutes, then we're going to change subjects. We have two more changes before we wrap up and we will wrap up, I promise to you and the listeners. If you think of the vortex, how much do the mid-sized firms die in the vortex? Do the small sharpshooters stay in the vortex? Because then the asset, the companies that don't buy an asset allocation model from Blackstone do their own asset allocation, therefore want smaller managers to do it with.

Margaret McKnight:

It's kind of all of the above. I mean, a lot of specialist operators are getting bought if they're good. They're getting bought by the good companies because the bigger companies are working to become vertically integrated. So that's one direction. I think some of them aren't going to make it and haven't. I mean, I know of some that haven't made it. There's a diverse array of outcomes.

Jeff Giller:

There's definitely less small managers now and mid-sized managers. So I think the trend is that things will be more and more concentrated in the large-cap managers, but it doesn't mean that good small and mid-cap managers are going to fall off the face of the earth. So there still will be.

Matt Slepin:

Well, also, everyone relies on capital and the capital may not come in a co-mingled fund to those small managers, but it might come from Blackstone.

Jeff Giller:

Right. Well, true.

Matt Slepin:

And then they're for-

Jeff Giller:

But then they wouldn't be a manager, then they'd be an operating partner. But if you're talking about the fund, about the fund managers, yeah, there can be different kinds of capital sources than just creating discretionary funds.

Matt Slepin:

Okay, so let's move on another subject. You have a House View. Talk about the House View. We have little time remaining to talk about where one would allocate assets today. And, also, I worry about where I might allocate my asset today because it's a ten-year plan, not a one-year plan. So the flavor of the day should be the flavor of the next ten-year investment period or twenty-year investment period. So with that as context, you've got five minutes for the House View.

Margaret McKnight:

I can actually do that. So first of all, if you're listening to this long after it's published, we do put our House Views on our website usually in the spring and the fall. So keep it up to date, and even right now there's a much more extensive House Views and webinar, et cetera, that are available on the website and through us if my five minutes has wetted your appetite for more. At this moment, the overriding trend that we care about is a big jump in interest rates. Borrowing rates have basically doubled since the beginning of '22. It is creating a lot of balance sheet problems, and when I say a lot, there's $3.4 trillion of debt maturing over the next three years, most of which is at the lower interest rate structure.

As Jeff discussed earlier, your new loan is smaller than your old loan. If you can get one, there's balance sheet problems. So there is a huge need for restructuring capital, a little bit along the lines of what Jeff was talking about and other ways. And people are going to be forced to sell assets to fill their funding gaps if they can't fill them, or to sell other assets to raise capital to fill them. So the opportunity right now is to capitalize on the balance sheet problems and that is it typically plays out in the value-added and opportunistic space. And if you look at that space over time, the best vintage years were nine and 10 after the GFC when you had the same disarray, you had the best performance, the conditions are ripe for that to happen again. So this is, in our opinion, the best time in 15 years to be investing into that distress space.

And distress, as a price opportunity, should ease the opportunity that should underlie any other kind of property type and location considerations. Then you also want to make sure that your asset is going to do well, is going to have the wind at its back. And we look around the world at different property types and we provide a lot more granularity on this in our House Views. You have a couple of different trends. When you have definitely cyclic weakness in a slowing economy that, for example, is why big office tenants and big industrial tenants are really slow to sign big leases. So that is percolating through in the ordinary manner. I would say that with the higher interest rates are driving a lot of people to rental housing. So usually you have jobs drop and demand for multi-drops, it's kind of working the other way around right now.

So there's a cyclic factor, but then there's this overlay from major secular trends led by technology that are really changing the demand for space. Industrial has been a huge beneficiary of that because of the e-commerce led demand. It will probably also benefit from de-globalization, not all of it. You got to be in the right place and it will shift. And industrial is going to continue to have very substantial income growth for the next three years because of the loss to lease most if you have a... 70% of the odyssey is below market rents. And so as that rolls up to markets, because rents went up so fast, it'll generate significant growth in industrial incomes over the next three years or so. Otherwise, the sector rent growth is flat to negative depending on where you are. Multifamily is super interesting right now, the fundamentals look like we should be investing there.

It is also the biggest political hot button of affordability and cost of living. And there is talk of rent controls that you really do have to watch. And there were very destructive rent controls put in place in New York that made it impossible to maintain assets that were a backlash to our current president back in 2017, so there's some political risk and there has been also in Europe. Multifamily is much less interesting in a lot of parts of Europe because of the rent control, but there's a proliferation of a lot. We don't even call it multifamily anymore, we call it residential because there's manufactured housing and single family housing for rent. So there's a lot of interesting stuff to do and we like residential, like everything, you have to be smart about understanding the environment in which you're working. And there's a lot of peripheral product types as people are shifting away from office, they institutionalize not only the other categories of residential but a lot of these other niche products have really evolved.

The hot one today, of course, is data centers where there's a huge amount of demand and a big supply constraint. Yeah, lots of other ones, but it is the way of choices is broader than ever before. And the fundamentals are fine despite having potentially a weak and weaker economy, so you really flip back to making sure your asset has good income potential and you're able to capitalize on distress to buy it.

Matt Slepin:

And are there specialty sectors that require more owner specialization and skill set that are also... You jump into that seniors housing might be one. Hospitality overall are great operators, make great assets, not just the asset themselves. So talk a little bit about specialty sectors. And also in the real world, 60% of the read index is specialty asset class, not the four food groups? I have heard this.

Margaret McKnight:

Right, and it's oddities too. It's not all what you'd think of as real estate.

Matt Slepin:

Right. Towers.

Margaret McKnight:

It's like timber and towers and prisons and yes, yes. So absolutely yes, you do need to know what you're doing to manage real estate well, and the mainstream real estate knows how to manage apartment buildings and office and industrial assets. But they don't maybe know how to manage a data center yet, they'll figure it out. They've figured out student, the student housing operators, that took some specialty and we figured it out. Senior takes specialty, so you always want to make sure you're investing with somebody. This goes to matching the strategy to the team that actually has the right experience. And data centers is actually where some new managers are coming into the game because they have experience. So yes, you do need to, and as you move up the spectrum from leasing a box to actually managing a business, you need more and more scale too.

Matt Slepin:

As you look at all this and say, "Okay, vintage year '24, '25 will be really strong ones," any comments on the effect of the new administration towards headwinds, tailwinds, or confusion or flack coming against our business environment?

Margaret McKnight:

So I do think there's going to be confusion around the residential. We're actually organizing a macro paper at the firm level and kicked this around and have basically two big conclusions. One, it's too early to tell. There are so many different things that have been discussed across a range of implementations, it's really hard to tell. And the devil's in the details and we'll keep on that. And the second one is, and you alluded to it, as longer term investors, there's only so much an administration if they have control for two years or four years can do with respect to changing the meta trends that we are dealing with right now. One of them, as you mentioned, is climate change, one of them is technology change, de-globalization is another one. And then what's happening to interest rates. And interest rates are likely to stay in the zone of where they are, which is more like where the... Everybody talks about higher for longer.

Matt Slepin:

[inaudible 01:08:05]

Margaret McKnight:

It's back to normal, right?

Matt Slepin:

We're normal.

Margaret McKnight:

We are in a full employment economy and we are deficit spending, right? It's no surprise that they're having a hard time getting inflation under control. That means you need high interest rates. And when you look at the incoming administration, there's also a degrees of difficulty of what they want to do. They are probably going to at least extend, if not increase tax cuts and it's extremely hard to cut spending. So likely we're going to have more deficit spending. Plus, some of the other changes around immigration and tariffs are ultimately inflationary. And the bond market has cottoned on to this and so has the fed, and since the Fed's last meeting, the 10-year is literally up a hundred basis points.

Matt Slepin:

People are voting with their decisions.

Margaret McKnight:

Higher. Well...

Matt Slepin:

That's what the 10-year does.

Margaret McKnight:

Fun investors are doing the math. So I think that the real estate industry is going to continue to grapple with higher rates. And on the one hand, in the short term, it's very exciting opportunity to help people adjust their balance sheets and make it all work. On the other hand, it's going to have to reprice to deliver above fixed income to be sustainably interesting. And it will.

Matt Slepin:

It's funny, we talked about the vortex. We talked a while ago about these people don't retire from the business. I had the same challenge at my company, Terra Search Partners, and we couldn't have succession, we couldn't have a capital. The capital event and succession kind of go together, maybe that's part of the reason some people hang out.

Jeff Giller:

Right.

Matt Slepin:

And then I got to do similar to what you do, become part of ZRG, and then have a little bit of a capital event but then you have succession. And then it actually extends your lifetime and your lifestyle because it's more fun. You have to lose the stress you had-

Jeff Giller:

I honestly thought I was going to be retired 10 years ago. Now, much to the disagreement of my partners, I don't even know if I'm going to retire 10 years from now. I'm having too much fun working with-

Matt Slepin:

Fair deal.

Jeff Giller:

... great people, young, smart people in a growing business. And I don't play golf.

Matt Slepin:

There you go. So last question on Leading Voices is always advice to a young person. And I want to think of advice to a young person living in this time, getting into the real estate business, and living in the time where the vortex might not go away. So how does one plan one's career with the realities that we've spoken about today? Margaret, you get to go first.

Margaret McKnight:

Oh, thanks.

Matt Slepin:

Yeah, you're welcome.

Margaret McKnight:

I have two thoughts on this. One is I think the reason that Jeff is thinking about sticking in this business forever and so many do is because he's figured out his passion so that work is fun. And there's so many different attributes of real estate, whether you like construction or architecture or people or numbers. If you align your career with what excites you, you will stay more driven in what is really a pretty hardworking environment and keep staying excited to get up and take on the next challenge the next day. And I share Jeff's interest in hanging around for a good long time because I'm having fun.

Jeff Giller:

And I share Margaret's interest in having her hang around for a good long time, so I'm glad we're aligned on that. Not fair that she got to go first because she took mine.

Margaret McKnight:

No.

Jeff Giller:

But I'll maybe say the same thing a little differently, at least I'll try to say it differently, but at least it affirms that this is important.

Matt Slepin:

Right.

Jeff Giller:

Real estate is a very, very broad industry. If you like the real sticks and bricks and you really like the assets, then you can be a developer. If you like the numbers and you like the analytics and you can be on the investment or the debt side, you can be a property manager. There's just so many different areas. And, look, the reason I got into real estate is because I thought it was pretty cool. It satisfies my geeky, quantitative, analytical side. So when I was younger, I was building cashflow models and everything else, but it also satisfies my social side because also it's a people business and you work with people, you think creatively by structuring deals and that's what I liked about it. Some people, again, maybe they want to just build high rises, that's what they like to do. And there are definitely people that like the investment side more, and there's people that like more the asset side more.

There's also people that are sales oriented and they like being brokers or leasing agents, and these are all very different aspects of the business. So I agree with Margaret, figure out what floats your boat and make sure you lean into that side of the business and just so understand it first. And the second thing is just mentorship is everything. Work at a firm. And, look, maybe that's why you lean into the vortex because you get great training from these big firms and it's a good place to start. Jobs are competitive, but if you can get a job with one of the top firms, you'll get great training. And there's always a pyramid so you're not going to be able to... A lot of people just have to leave and then go to other places. But you'll get the training and the mentorship at some of those larger firms and that you can go off and do whatever you want.

Matt Slepin:

One thing's about that pyramid and the training and mentorship is I used to say this a lot to people, if you have patience for the first 20 years of your career instead of impatience, I think young people have impatience. They're ready to be an MD tomorrow and to be a millionaire tomorrow, maybe it's a billionaire you have to be now. But if you have patience that the first 20 years you're figuring out, you're trying out different things, you're making your connections, and then you find the place where you belong as a human being and the business that you love, that might happen not till you're 40. But when that happens, and you have a long... You have a story, we all have stories about this stuff. But then in your forties, fifties and sixties, both your network and the place that you have your passion has solidified, if you're lucky, and then it becomes just delightful.

Jeff Giller:

The way I've always described that same thing, that when I've given advice to younger people is your twenties are all about training and forget about money. Don't even think about money, it's unimportant. Twenties are about money, thirties are all about positioning. Now you've taken your training, you've got to be in the right seat at the right place, and you've got to make sure you're elevating to the right place so in your forties it becomes about money and about leadership. And then in your fifties you can chill back and clip the coupons because now you've got this apparatus of people in their twenties and thirties and forties and you're now the strategic thinker and the leadership. So that's how I've thought about those various decades, and that's the advice I give people. In your twenties, it's all just about the training. Who cares about the money?

Matt Slepin:

If you chilled in your fifties, congratulations, because that was a decade I worked. It all came together when I worked the hardest.

Jeff Giller:

The real story is about my fifties is not that, as Margaret knows what was going on in my fifties-

Margaret McKnight:

There was maybe a little bit of heavy lifting.

Jeff Giller:

... was not. Yeah.

Matt Slepin:

I think there is. There's a muscle. The muscles are being utilized, but you got the muscles.

Jeff Giller:

Well, let's put it this way. It didn't happen to me, but some people should be able to chill in their fifties.

Margaret McKnight:

Aspirational.

Matt Slepin:

There you go. Okay, we're going to call that one a wrap. Thank you.

Jeff Giller:

Cool.

Matt Slepin:

This was a wonderful conversation.

Jeff Giller:

Enjoyed it.

Matt Slepin:

Really appreciate it. I hope that you enjoyed today's episode. Please remember, if you're enjoying Leading Voices to share an episode with a friend or get them to subscribe. If they're podcast weary and not sure how to find and subscribe on their phone, go ahead and take their phone in your hand and subscribe for them, and add another few of your favorite podcasts to their list to get them started. They'll thank you for it. You can also find episodes of the show on our website, which you can find at zrgpartners.com/leadingvoices. And if you have comments or discussion about this episode or Leading Voices in general, or if you're seeking help in real estate, human capital solutions, recruiting or consulting especially, please contact me at mslepin@zrgpartners.com. Thanks for being a listener to Leading Voices.